

January, 2006

How to Bid in the EPA SO₂ Allowance Auctions
Fourteenth Annual Auctions
March 27, 2006

To reduce acid rain, Title IV of the Clean Air Act Amendments of 1990 (CAAA) established the Acid Rain Program, which uses an innovative, market-based allowance trading system to cut in half sulfur dioxide emissions. The CAAA mandated that EPA hold yearly auctions of a small portion of allowances (2.8 percent) reserved from the total allowances allocated to utilities each year. The auctions are intended to help signal price information to the allowance market and provide a public source of allowances for new utilities that are not allocated allowances. Utilities, environmental groups, allowance brokers, and anyone else interested in purchasing allowances can participate in the EPA auctions. Allowances sold at the auctions will be sold to the highest bidder until no allowances remain. EPA cannot set a minimum acceptable price for allowances in the auctions and bidders are not restricted as to the quantity or price of their bid.

When will the fourteenth EPA auctions be held and how many allowances will be sold?

On March 27, 2006, EPA will conduct the fourteenth annual allowance auctions under the CAAA. 125,000 allowances will be sold in the “spot” auction (usable for compliance beginning in 2006), and 125,000 allowances will be sold in the 7-year advance auction (usable for compliance beginning in 2013).

Who is running the EPA auctions this year?

The Chicago Board of Trade (CBOT) chose to stop administering the auctions for EPA. This means EPA will be handling all aspects of the auctions. **It is important to note that bid forms and payments must now be sent to EPA instead of the CBOT.**

Can I offer some of my allowances to be sold in the EPA auctions?

Yes, for the 2006 auctions, utilities that are allocated allowances, or others that have purchased allowances held in the Allowance Tracking System, can offer their allowances for sale in the EPA auctions and set a minimum price for those allowances. However, offered allowances will be sold after the allowances from the reserve, so offered allowances will consequently be sold at a lower price than the allowances from the reserve. To offer allowances in the 2006 auctions, EPA must receive an SO₂ Allowance Offer Form by the close of business on March 6, 2006. **Faxed copies of the SO₂ Allowance Offer Form will be accepted (see the Allowance Offer Form for the fax number).**

Do I need an account in the Allowance Tracking System before I bid in the EPA auctions?

Yes, to be able to bid in the EPA auctions, one must first have an account in the EPA Allowance Tracking System (ATS). Affected units are automatically given unit accounts in the ATS. All others wanting to bid in the EPA auctions must open a General Account in the ATS by submitting an Allowance Account Information Form. EPA encourages bidders to open a General Account prior to close of business March 21, 2006, the deadline by which bids must be received by EPA.

How do I bid in the EPA auctions?

Anyone can bid in the EPA auctions by opening an account in the Allowance Tracking System and submitting a Bid Form. Submitted with the Bid Form must be a certified check, an EPA Letter of Credit Form, or a statement of intent to use to a wire transfer to cover the total amount of the bids. EPA will only accept an EPA Letter of Credit Form that is signed by a bank that is a member of the Federal Reserve and is a participant in the FEDWIRE funds transfer system. Complete Bid Forms including payment must be received by EPA by the close of business (4:00 p.m. Eastern Standard Time) on **March 21, 2006**. **Faxed copies of the Bid Forms will be accepted (see Bid Form for the fax number).**

When will the forms needed to bid in the EPA auctions be available?

By the end of January 2006, the Allowance Account Information Form and the EPA auction forms can be obtained from the Clean Air Markets Hotline at (202) 343-9620 or on the Clean Air Markets Program Homepage: <http://www.epa.gov/airmarkets>.

How will I know the results of the EPA auctions?

EPA will post the results on the Acid Rain Program Auctions Web site by 12:00 noon on March 28, 2006. (<http://www.epa.gov/airmarkets/auctions/>).

When do I pay for allowances won at the auctions if I use a Letter of Credit Form to guarantee payment?

If a winning bidder uses an EPA Letter of Credit Form, that bidder must wire funds to EPA's bank account or ensure that EPA receives a certified check for the full amount owed no later than noon EST on **March 31, 2006**. If payment is not received by that time, EPA will demand payment from the bank that signed the EPA Letter of Credit Form.

May I use a wire transfer of funds to cover my bids?

Yes, you may use a wire transfer of funds to cover the amount of your bids instead of using a cashier's check or an EPA Letter of Credit Form. Submit a cover letter, along with your bid form, indicating that you are using a wire transfer to cover the amount of your bid. If you are submitting more than one bid form, you may use one wire transfer to cover the total amount of all the bids. The funds must be wired to EPA Account: TREAS NYC/(68011233)EPA, ABA

#021030004 Transaction Type 10 no later than 4:00 p.m. Eastern Standard Time on the Tuesday before the date of the auction (March 21, 2006).

Who do I contact for more Information?

To obtain additional information on the EPA auctions, call Kenon Smith at (202) 343-9164 or check the Acid Rain Program Auctions Web site (<http://www.epa.gov/airmarkets/auctions/>).

Summary of Information to Participate in the EPA Auctions

Action		Form Needed	Send To	Received by
Offering allowances in the EPA auctions		SO ₂ Allowance Offer Form	EPA	Close of business March 6, 2006
Bidding in the EPA auctions				
C	Open ATS General Account (does not apply to affected units)	Allowance Account Information Form	EPA	4:00 p.m. EST March 21, 2006
C	Submit completed auction bid with method of payment	Bid Form with: (1) certified check; (2) EPA Letter of Credit Form; or, (3) Cover letter stating intent to use a wire transfer to cover the total amount of the bids.	EPA	4:00 p.m. EST March 21, 2006